

MOUNT AYR COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

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**Mount Ayr Community School District
Board of Education and School District Officials
Year Ended June 30, 2011**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Rodney Shields	President	2013
James Uhlenkamp	Vice President	2012
Patricia West	Board Member	2012
Duane Shafer	Board Member	2013
Brandi Shay	Board Member	2015
School District Officials		
Joe Drake	Superintendent	2011
Janette Campbell	District Secretary/Treasurer	2011
Ahlers & Cooney	Attorney	Indefinite



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CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Education
Mount Ayr Community School District
Mount Ayr, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District, Mount Ayr, Iowa as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 22, 2011, on our consideration of the Mount Ayr Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 5-13 and 41-43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mount Ayr Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2010, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 10, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

November 22, 2011

**Mount Ayr Community School District
Management's Discussion and Analysis
Year ended June 30, 2011**

The Mount Ayr Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

General Fund revenues increase from \$7,104,076 in fiscal 2010 to \$7,279,056 in fiscal 2011. General Fund expenditures increased from \$6,838,407 in fiscal 2010 to \$6,928,699 in fiscal 2011. The District's General Fund balance increased from \$323,439 in fiscal 2010 to \$723,534 in fiscal 2011.

The increase in General Fund revenues was attributable to increased property taxes, tuition, and increased Federal funding. The increase in expenditures was due primarily to increased payroll.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Mount Ayr Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Mount Ayr Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Mount Ayr Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

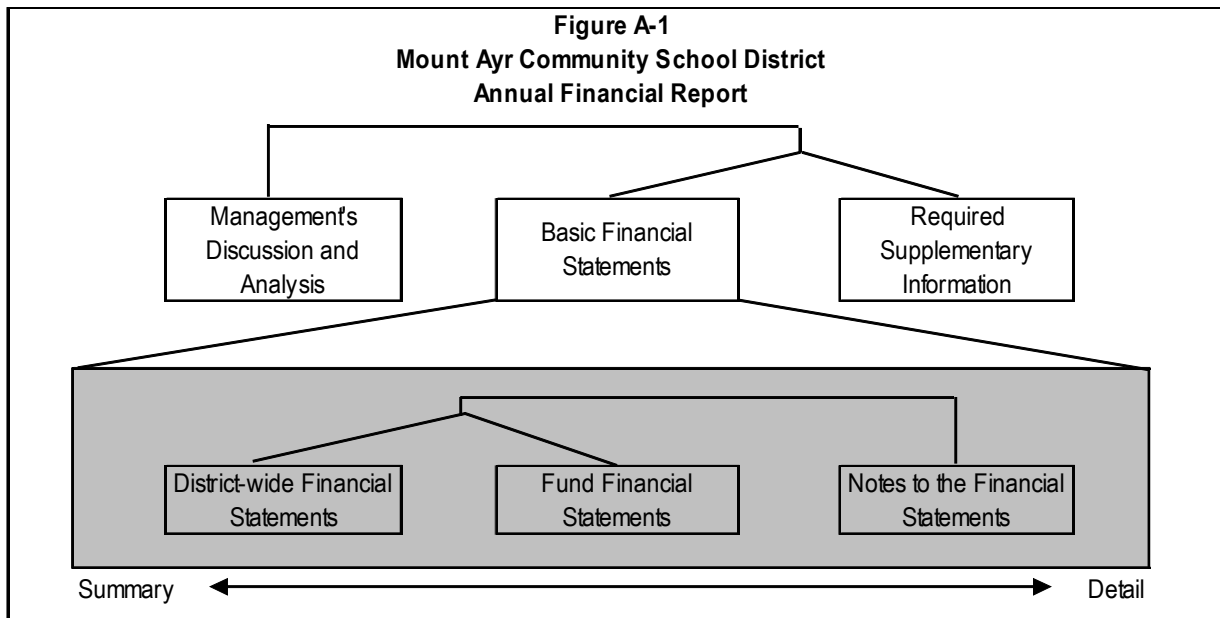


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and student construction	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and student construction programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Student Construction Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

**Mount Ayr Community School District
Management's Discussion and Analysis
Year ended June 30, 2011**

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Expendable Trust Funds.

Expendable Trust Fund – The District accounts for outside memorial fund donations in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3							
Condensed Statement of Net Assets							
	Governmental activities		Business type		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Current assets	\$ 6,008,731	\$ 6,263,728	75,337	69,162	6,084,068	6,332,890	-3.9%
Capital assets, net	14,653,704	14,447,567	50,173	41,554	14,703,877	14,489,121	1.5%
Other noncurrent assets	71,401	96,012	-	1,618	71,401	97,630	-26.9%
Total assets	20,733,836	20,807,307	125,510	112,334	20,859,346	20,919,641	-0.3%
Current liabilities	5,038,931	4,861,940	28,910	27,674	5,067,841	4,889,614	3.6%
Long-term liabilities	8,331,203	8,801,704	-	-	8,331,203	8,801,704	-5.3%
Total liabilities	13,370,134	13,663,644	28,910	27,674	13,399,044	13,691,318	-2.1%
Net assets:							
Invested in capital assets, net of related debt	6,009,633	6,405,203	50,173	41,554	6,059,806	6,446,757	-6.0%
Restricted	791,063	494,152	-	-	791,063	494,152	60.1%
Unrestricted	563,006	244,308	46,427	43,106	609,433	287,414	112.0%
Total net assets	\$ 7,363,702	\$ 7,143,663	96,600	84,660	7,460,302	7,228,323	3.2%

The District's combined net assets increased by nearly 3.2%, or approximately \$ 231,979 over the prior year. The largest portion of the District's net assets is invested in capital assets, e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$296,911, or 60.1% over the prior year. The increase was primarily a result of the completed building project in the Capital Projects Fund. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints by debt covenants, enabling legislation or other legal requirements) increased approximately \$322,019 or 112.0%.

**Mount Ayr Community School District
Management's Discussion and Analysis
Year ended June 30, 2011**

Figure A-4 shows the change in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4 Changes in Net Assets							
	Governmental Activities		Business type Activities		Total District		Total Change
	Year ended June 30,		Year ended June 30,		Year ended June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Revenues:							
Program revenues:							
Charges for service and sales	\$ 784,290	747,570	184,721	158,598	969,011	906,168	6.9%
Operating grants, contributions and restricted interest	1,916,972	1,629,526	209,785	218,417	2,126,757	1,847,943	15.1%
General revenues:							
Property tax	3,385,998	3,327,664	-	-	3,385,998	3,327,664	1.8%
Statewide sales, services and use tax	387,076	368,364	-	-	387,076	368,364	5.1%
Unrestricted states grants	2,486,931	2,121,561	-	-	2,486,931	2,121,561	17.2%
Unrestricted investment earnings	10,493	74,901	-	-	10,493	74,901	-86.0%
Other	240,175	215,723	-	-	240,175	215,723	11.3%
Total revenues	9,211,935	8,485,309	394,506	377,015	9,606,441	8,862,324	8.4%
Program expenses:							
Governmental activities:							
Instruction	5,324,072	5,121,690	-	-	5,324,072	5,121,690	4.0%
Support services	2,346,248	2,383,127	-	-	2,346,248	2,383,127	-1.5%
Non-instructional programs	14,961	25,479	382,566	370,381	397,527	395,860	0.4%
Other expenses	1,306,615	1,242,692	-	-	1,306,615	1,242,692	5.1%
Total expenses	8,991,896	8,772,988	382,566	370,381	9,374,462	9,143,369	2.5%
Change in net assets	220,039	(287,679)	11,940	6,634	231,979	(281,045)	182.5%
Net assets beginning of year	7,143,663	7,431,342	84,660	78,026	7,228,323	7,509,368	-3.7%
Net assets end of year	\$ 7,363,702	7,143,663	96,600	84,660	7,460,302	7,228,323	3.2%

In fiscal year 2011, property tax and unrestricted state grants account for 63.75% of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 85.3% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,211,935 and expenses were \$8,991,896. In a difficult budget year, the District was able to balance the budget by securing grants for increased revenues, attrition for payroll and using carryover balances.

The cost financed by users of the District's programs was \$784,290.

Federal and state governments subsidized certain programs with grants and contributions totaling \$1,916,972.

The net cost of governmental activities was financed with \$3,773,074 in property and other taxes and \$2,486,931 in unrestricted state grant.

Business Type Activities

Revenues for business type activities for the year ended June 30, 2011 were \$394,506 and expenses were \$382,566. The District's business type activities include the School Nutrition Fund and Student Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The district increased meal prices in 2010-2011. This increase has resulted in increased revenue to the School Nutrition Fund which the District will utilize in the future replacement of obsolete kitchen equipment.

The following table (Figure A-5) presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5						
Total and Net Cost of Governmental Activities						
	Total Cost of Services		Change	Net Cost of Services		Change
	2011	2010		2011	2010	
Instruction	\$ 5,324,072	5,121,690	4.0%	3,422,044	3,014,765	13.5%
Support services	2,346,248	2,383,127	-1.5%	2,346,248	2,380,161	-1.4%
Non-instructional programs	14,961	25,479	-41.3%	14,961	25,479	-41.3%
Other expenses	1,306,615	1,242,692	5.1%	507,381	975,487	-48.0%
Totals	\$ 8,991,896	8,772,988	2.5%	6,290,634	6,395,892	-1.6%

INDIVIDUAL FUND ANALYSIS

As previously noted, the Mount Ayr Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,420,818, under last year's ending fund balances of \$1,862,149. The primary reason for the decrease in combined fund balances in fiscal 2011 is due the monies being spent for the Elementary/Secondary building project out of the Capital Projects Construction Fund.

Governmental Fund Highlights

The District's General Fund financial position has strengthened compared to the 2009-2010 school year. The General Fund balance increased from \$323,439 in 2009-2010 to \$723,534 in 2010-2011. By implementing budget cuts and increasing revenues through property taxes, the district was able to end the 2010-2011 fiscal year with a positive balance.

The Capital Projects Fund balance as restated decreased \$1,305,590 in 2010 to \$433,232 in 2010-2011 due to the expenditures associated with the Elementary/Secondary building project.

Non-Major Governmental

Proprietary Fund business type net assets increased from \$84,660 at June 30, 2010 to \$96,600 to June 30, 2011, representing an increase of approximately 14.1%. As previously noted, the District increased meal prices in 2010-2011 and has reduced expenditures in the lunch program.

BUDGETARY HIGHLIGHTS

The District's receipts were \$ 9,571,718 which were \$554,217 more than budgeted receipts. The most significant variance resulted from the decrease in enrollment and tuition in revenues.

Total expenditures were \$187,262 less than budgeted, due primarily to reduction in payroll through attrition and overall budget cuts. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Funds. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$14.70 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 1.5% from last year.

Figure A-6 Capital Assets, net of Depreciation							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 145,185	145,185	-	-	145,185	145,185	0.0%
Buildings	13,471,279	13,189,379	-	-	13,471,279	13,189,379	2.1%
Improvements other than buildings	118,241	125,128	-	-	118,241	125,128	-5.5%
Furniture and equipment	918,999	987,875	50,173	41,554	969,172	1,029,429	-5.9%
Totals	\$ 14,653,704	14,447,567	50,173	41,554	14,703,877	14,489,121	1.5%

Long-Term Debt

At June 30, 2011, the district had \$8,644,071 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 4.6% from last year. (See Figure A-7).

Figure A-7 Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30,		June 30,
	2011	2010	2010-2011
General obligation bonds	\$ 6,010,000	6,250,000	-3.8%
Revenue bonds	2,620,000	2,765,000	-5.2%
Capital loan notes	14,071	41,232	-65.9%
Totals	\$ 8,644,071	9,056,232	-4.6%

On October 1, 2001 the District authorized Energy Management Improvement Capital Loan Notes in the amount of \$225,000 bearing interest and maturing each year until December 1, 2011. In March of 2008, the District approved General Obligation School Bonds in the amount of \$6,700,000 and maturing each year until May 1, 2028. In September of 2009, the District passed School Infrastructure Sales, Services, and Use Tax Revenue Bonds in the amount of \$2,885,000. Those bonds will mature each year until July 1, 2029.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The district completed a middle school gymnasium and locker rooms to the secondary facility and replaced the 1936 elementary building with new classrooms, lunchroom, multi-purpose facility and office space. The \$6.7 million dollar capital expenditures will increase the property tax levy \$2.84 per thousand for the twenty year bond. The project was completed with the Infrastructure and Use Tax Revenue Bonds of \$2,885,000.

The Mount Ayr Community School District's enrollment decreased slightly for the 2010-2011 school year. The districts certified enrollment also decreased this year but the district is taking steps to reduce spending throughout the general fund.

Economically, the County has been affected by the economic crisis that is affecting the state and the country. Federal stimulus dollars have helped with budgets during the year. Ringgold County built a new hospital and a new county-wide law enforcement center. Heartland Energy has begun production of wind turbine blades and plan to expand into solar, hydrogen, biomass solutions and motion based propulsion in the future. We believe this will continue solid growth for the community, which should result in job opportunities and increased student enrollment.

The Board of Directors approved the .34¢ PPEL levy for the 2011-2012 school year but is committed to keeping property taxes as low as possible.

The districts valuations increased from \$197,066,067 to \$210,074,173 for the 2011-2012 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Janette Campbell, District Secretary/Treasurer and Business Manager, Mount Ayr Community School District, 1001 East Columbus Street, Mount Ayr, IA 50854.

Basic Financial Statements

Mount Ayr Community School District
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,979,739	52,446	2,032,185
Receivables:			
Property tax:			
Delinquent	43,664	-	43,664
Succeeding year	3,487,237	-	3,487,237
Accounts	41,826	-	41,826
Due from other governments	456,265	-	456,265
Inventories	-	22,891	22,891
Total current assets	6,008,731	75,337	6,084,068
Noncurrent assets:			
Bond issuance costs	36,697	-	36,697
Bond discount	34,704	-	34,704
Capital assets:			
Capital assets - nondepreciable	145,185	-	145,185
Capital assets - depreciable, net	14,508,519	50,173	14,558,692
Total non current assets	14,725,105	50,173	14,775,278
Total assets	\$ 20,733,836	125,510	20,859,346
Liabilities			
Current liabilities:			
Excess of outstanding warrants over balance	\$ 7,728	-	7,728
Accounts payable	197,627	24,078	221,705
Salaries and benefits payable	658,229	4,832	663,061
Due to other governments	71,301	-	71,301
Accrued interest payable	43,200	-	43,200
Deferred revenue:			
Succeeding year property tax	3,487,237	-	3,487,237
Other	128,508	-	128,508
General obligation bonds	250,000	-	250,000
Revenue bonds	145,000	-	145,000
Capital notes payable	14,071	-	14,071
Early retirement	36,030	-	36,030
Total current liabilities	5,038,931	28,910	5,067,841
Noncurrent liabilities:			
General obligation bonds	5,760,000	-	5,760,000
Revenue bonds	2,475,000	-	2,475,000
Early retirement	96,203	-	96,203
Total noncurrent liabilities	8,331,203	-	8,331,203
Total liabilities	13,370,134	28,910	13,399,044

Exhibit A

Mount Ayr Community School District
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	6,009,633	50,173	6,059,806
Restricted for:			
Categorical funding	158,268	-	158,268
Management levy purposes	30,689	-	30,689
Student activities	140,258	-	140,258
Debt service	263,731	-	263,731
Capital projects	198,117	-	198,117
Unrestricted	563,006	46,427	609,433
Total net assets	7,363,702	96,600	7,460,302
Total liabilities and net assets	\$ 20,733,836	125,510	20,859,346

See notes to financial statements.

Mount Ayr Community School District
Statement of Activities
Year ended June 30, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:						
Instruction:						
Regular	\$ 2,903,015	301,067	772,030	(1,829,918)	-	(1,829,918)
Special	1,261,011	94,181	270,804	(896,026)	-	(896,026)
Other	1,160,046	389,042	74,904	(696,100)	-	(696,100)
	<u>5,324,072</u>	<u>784,290</u>	<u>1,117,738</u>	<u>(3,422,044)</u>	<u>-</u>	<u>(3,422,044)</u>
Support Services:						
Student	178,973	-	-	(178,973)	-	(178,973)
Instructional staff	286,005	-	-	(286,005)	-	(286,005)
Administration	707,771	-	-	(707,771)	-	(707,771)
Operating and maintenance of plant	697,177	-	-	(697,177)	-	(697,177)
Transportation	476,322	-	-	(476,322)	-	(476,322)
	<u>2,346,248</u>	<u>-</u>	<u>-</u>	<u>(2,346,248)</u>	<u>-</u>	<u>(2,346,248)</u>
Non-instructional programs	<u>14,961</u>	<u>-</u>	<u>-</u>	<u>(14,961)</u>	<u>-</u>	<u>(14,961)</u>
Other expenditures:						
Facilities acquisition	640,421	-	530,783	(109,638)	-	(109,638)
Long-term debt interest	386,934	-	-	(386,934)	-	(386,934)
AEA flowthrough	268,451	-	268,451	-	-	-
Depreciation (unallocated)*	10,809	-	-	(10,809)	-	(10,809)
	<u>1,306,615</u>	<u>-</u>	<u>799,234</u>	<u>(507,381)</u>	<u>-</u>	<u>(507,381)</u>
Total governmental activities	<u>8,991,896</u>	<u>784,290</u>	<u>1,916,972</u>	<u>(6,290,634)</u>	<u>-</u>	<u>(6,290,634)</u>
Business type activities:						
Non-instructional programs:						
Nutrition services	382,566	184,721	209,785	-	11,940	11,940
Total business type activities	<u>382,566</u>	<u>184,721</u>	<u>209,785</u>	<u>-</u>	<u>11,940</u>	<u>11,940</u>
Total primary government	<u>\$ 9,374,462</u>	<u>969,011</u>	<u>2,126,757</u>	<u>(6,290,634)</u>	<u>11,940</u>	<u>(6,278,694)</u>

Exhibit B

**Mount Ayr Community School District
Statement of Activities
Year ended June 30, 2011**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants, Contributions					
	Expenses	Charges for Service	and Restricted Interest	Governmental Activities	Business Type Activities	Total
Totals from previous pages	\$ 9,374,462	969,011	2,126,757	(6,290,634)	11,940	(6,278,694)
General revenues:						
Property tax levied for:						
General purposes				2,962,991	-	2,962,991
Debt service				357,255	-	357,255
Capital outlay				65,752	-	65,752
Statewide sales, services and use tax				387,076	-	387,076
Unrestricted state grants				2,486,931	-	2,486,931
Contributions not restricted to specific programs				40,540	-	40,540
Unrestricted investment earnings				10,493	-	10,493
Gain on sale of capital assets				34,723	-	34,723
Other				164,912	-	164,912
Total general revenues				6,510,673	-	6,510,673
Change in net assets				220,039	11,940	231,979
Net assets beginning of year				7,143,663	84,660	7,228,323
Net assets end of year				\$ 7,363,702	96,600	7,460,302

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

Exhibit C

Mount Ayr Community School District
Balance Sheet
Governmental Funds
June 30, 2011

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Assets					
Cash and pooled investments	\$ 1,098,041	-	582,979	297,276	1,978,296
Receivables:					
Property tax:					
Delinquent	36,156	4,630	882	1,996	43,664
Succeeding year	2,755,213	509,364	72,661	149,999	3,487,237
Accounts	14,934	21,474	-	5,418	41,826
Due from other governments	349,812	-	106,453	-	456,265
Due from other funds	181,000	-	-	-	181,000
Total assets	\$ 4,435,156	535,468	762,975	454,689	6,188,288
Liabilities and Fund Balances					
Liabilities:					
Excess of outstanding warrants over balance	\$ -	7,728	-	-	7,728
Accounts payable	98,371	21,474	76,082	1,510	197,437
Salaries and benefits payable	658,229	-	-	-	658,229
Due to other governments	71,301	-	-	-	71,301
Due to other funds	-	-	181,000	-	181,000
Early retirement payable	-	-	-	36,030	36,030
Deferred revenue:					
Succeeding year property tax	2,755,213	509,364	72,661	149,999	3,487,237
Other	128,508	-	-	-	128,508
Total liabilities	3,711,622	538,566	329,743	187,539	4,767,470
Fund balances:					
Restricted for:					
Categorical funding	158,268	-	-	-	158,268
Debt service	-	-	263,731	-	263,731
Management levy purposes	-	-	-	126,892	126,892
Student activities	-	-	-	140,258	140,258
School infrastructure	-	-	198,117	-	198,117
Unassigned	565,266	(3,098)	(28,616)	-	533,552
Total fund balances	723,534	(3,098)	433,232	267,150	1,420,818
Total liabilities and fund balances	\$ 4,435,156	535,468	762,975	454,689	6,188,288

See notes to financial statements.

Exhibit D

**Mount Ayr Community School District
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2011**

Total fund balances of governmental funds (Exhibit C)	\$ 1,420,818
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***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	14,653,704
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The Internal Service Fund is used by management to charge the costs of the District's flexible benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	1,253
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Long-term liabilities, including bonds and notes payable, compensated absences, other postemployment benefits and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:

General obligation bonds	\$ (6,010,000)	
Revenue bonds	(2,620,000)	
Capital loan notes	(14,071)	
Bond issuance cost	36,697	
Bond discount	34,704	
Accrued interest	(43,200)	
Early retirement	(132,233)	
Portion of Early Retirement reflected on governmental funds	36,030	(8,712,073)

Net assets of governmental activities (Exhibit A)	\$ 7,363,702
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See notes to financial statements.

Exhibit E

Mount Ayr Community School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2011

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Revenues:					
Local sources:					
Local tax	\$ 2,814,614	357,255	452,828	148,377	3,773,074
Tuition	351,984	-	-	-	351,984
Other	242,607	-	2,480	401,415	646,502
Intermediate sources	17,972	-	4,716	-	22,688
State sources	3,215,115	186	39,461	80	3,254,842
Federal sources	636,764	-	491,358	-	1,128,122
Total revenues	7,279,056	357,441	990,843	549,872	9,177,212
Expenditures:					
Current:					
Instruction:					
Regular	2,462,469	-	-	92,458	2,554,927
Special	1,247,088	-	-	-	1,247,088
Other	801,571	-	-	343,675	1,145,246
	4,511,128	-	-	436,133	4,947,261
Support services:					
Student	174,013	-	-	-	174,013
Instructional staff	282,402	-	-	-	282,402
Administration	668,235	-	956	37,679	706,870
Operation and maintenance of plant	633,967	-	20,431	27,235	681,633
Transportation	390,503	-	85,459	15,069	491,031
	2,149,120	-	106,846	79,983	2,335,949
Other expenditures:					
Facilities acquisition	-	-	1,319,845	-	1,319,845
Long-term debt:					
Principal	-	412,161	-	-	412,161
Interest and fiscal charges	-	384,614	-	-	384,614
AEA flowthrough	268,451	-	-	-	268,451
	268,451	796,775	1,319,845	-	2,385,071
Total expenditures	6,928,699	796,775	1,426,691	516,116	9,668,281
Excess (deficiency) of revenues over (under) expenditures	350,357	(439,334)	(435,848)	33,756	(491,069)
Other financing sources:					
Operating transfers in	-	436,510	59,135	-	495,645
Operating transfers out	-	-	(495,645)	-	(495,645)
Sale of equipment	49,738	-	-	-	49,738
Total other financing sources (uses)	49,738	436,510	(436,510)	-	49,738
Net change in fund balances	400,095	(2,824)	(872,358)	33,756	(441,331)
Fund balances beginning of year, as restated	323,439	(274)	1,305,590	233,394	1,862,149
Fund balances end of year	\$ 723,534	(3,098)	433,232	267,150	1,420,818

See notes to financial statements.

Mount Ayr Community School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year ended June 30, 2011

Net change in fund balances - total governmental funds (Exhibit E)	\$	(441,331)
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***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 764,883	
Depreciation expense	<u>(543,731)</u>	221,152

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. The gain on disposition of capital assets and the proceeds from disposition are as follows:

Gain on disposition of capital assets	34,723	
Proceeds from the disposition	<u>(49,738)</u>	(15,015)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Also, governmental funds report the effect of issuance costs and premiums, whereas these amounts are deferred in and amortized in the Statement of Activities. Current year items are as follows:

Repayments of bond and note principal	412,161	
Amortization of premiums and bond issuance costs	<u>(4,129)</u>	408,032

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,809

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Early retirement	61,430	
Compensated absences	4,555	
Other postemployment benefits payable	<u>(20,482)</u>	45,503

The change in net assets of the Internal Service Funds represent an undercharge to the governmental funds served and, therefore, increases expenses in the Statement of Activities.

(111)

Change in net assets of governmental activities (Exhibit B)	\$	<u><u>220,039</u></u>
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See notes to financial statements.

Mount Ayr Community School District
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business Type Activities Non-major Enterprise Fund	Governmental Activities Internal Services Fund
Assets		
Current assets:		
Cash and investments	\$ 52,446	1,443
Inventories	22,891	-
Total current assets	75,337	1,443
Non-current assets:		
Property and equipment:		
Machinery and equipment	291,117	-
Accumulated depreciation	(240,944)	-
Total non-current assets	50,173	-
Total assets	\$ 125,510	1,443
Liabilities		
Current liabilities:		
Accounts payable	\$ 24,078	190
Salaries and benefits payable	4,832	-
Total current liabilities	28,910	190
Total liabilities	28,910	190
Net Assets		
Invested in capital assets, net of related debt	50,173	-
Unrestricted	46,427	1,253
Total net assets	96,600	1,253
Total liabilities and net assets	\$ 125,510	1,443

See notes to financial statements.

Exhibit H

Mount Ayr Community School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year ended June 30, 2011

	Business Type Activities	Governmental Activities
	Non-major Enterprise Fund	Internal Services Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 184,721	412
Operating expenses:		
Instructional programs:		
Support services:		
Instructional staff:		
Supplies	-	523
Non-instructional programs:		
Food service operations:		
Depreciation	1,971	-
Other	380,595	-
	382,566	-
Total operating expenses	382,566	523
Operating loss	(197,845)	(111)
Non-operating revenues:		
Contributions	278	-
State sources	3,392	-
Federal sources	206,115	-
Total non-operating revenues	209,785	-
Net income (loss)	11,940	(111)
Net assets beginning of year	84,660	1,364
Net assets end of year	\$ 96,600	1,253

See notes to financial statements.

Mount Ayr Community School District
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2011

	Business Type Activities Non-major Enterprise Fund	Governmental Activities Internal Services Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 140,786	-
Cash received from miscellaneous operating activities	43,935	412
Cash paid to employees for services	(187,370)	-
Cash paid to suppliers for goods or services	(163,292)	(333)
Net cash provided (used) by operating activities	(165,941)	79
Cash flows from non-capital financing activities:		
Contributions - operating	278	-
State grants received	3,392	-
Federal grants received	178,549	-
Net cash provided by non-capital financing activities	182,219	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(10,590)	-
Net cash used by capital and related financing activities	(10,590)	-
Net increase in cash and cash equivalents	5,688	79
Cash and cash equivalents at beginning of year	46,758	1,364
Cash and cash equivalents at end of year	\$ 52,446	1,443
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (197,845)	(111)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Commodities used	27,566	-
Depreciation	1,971	-
(Increase) in inventories	(487)	-
Increase in accounts payable	856	190
Increase in salaries and benefits payable	380	-
Increase in other postemployment benefits payable	1,618	-
Net cash provided (used) by operating activities	\$ (165,941)	79
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:		
Current assets:		
Cash	\$ 52,466	1,443
Cash and cash equivalents at year end	\$ 52,466	1,443

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received federal commodities valued at \$27,566.

See notes to financial statements.

Exhibit J

**Mount Ayr Community School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011**

	<u>Expendable Trust Funds</u> <u>Memorial Fund</u>
Assets	
Cash and investments	<u>\$ 1,899</u>
Total assets	<u>1,899</u>
Net assets	
Held in trust for special purposes	<u><u>\$ 1,899</u></u>

See notes to financial statements.

Exhibit K

Mount Ayr Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Expendable Trust Funds</u> <u>Memorial Fund</u>
Additions	\$ 300
Deductions	<u>1,720</u>
Change in net assets	(1,420)
Net assets beginning of year	<u>3,319</u>
Net assets end of year	<u><u>\$ 1,899</u></u>

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The Mount Ayr Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Mount Ayr, Iowa, and the predominate agricultural territories in Ringgold and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Mount Ayr Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Mount Ayr Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ringgold County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

Fund accounting - The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The District has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund: The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

Debt Service Fund: The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

Capital Projects Fund: The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The other governmental funds of the District are considered non-major and are as follows:

Special Revenue Funds: The Special Revenue Funds account for the revenue sources that are legally restricted to expenditures for specific purposes. These funds consist of the following:

Student Activity Funds: This fund accounts for transactions that occur due to student-related activities from groups and organizations such as athletic and activity events, fundraising and other extra-curricular or co-curricular activities.

Management Fund: This fund is authorized by Iowa Code Section 298.4 and accounts for transactions related to unemployment, early retirement, judgments and settlements and the cost of liability insurance as it relates to property and casualty.

Proprietary Fund Types: Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows. The following are the District's proprietary funds:

Enterprise Funds: Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the District has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

The following enterprise funds of the District are considered non-major:

School Nutrition Fund: This fund accounts for transactions related to the school lunch, breakfast and summer food programs authorized by Iowa Code 283A.

Student Construction Fund: This fund accounts for transactions related to construction projects performed by students for educational purposes.

Internal Service Funds: The internal service funds are used to account for goods or services provided by one department to other departments of the District on a cost reimbursement basis. The District has the following internal service fund:

Flexible Benefits: This fund accounts for transactions for certain benefits available to District employees in which the District is responsible for paying all premiums or costs specified by the employee.

Fiduciary Fund Types: Fiduciary funds account for assets held by the District in a trustee or agency capacity for the benefit of others and cannot be used to support District activities. The District has the following fiduciary fund type:

Expendable Trust Fund: These funds account for assets held by the District for special projects of the District with funds given by individuals, private organizations and other governments.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and early retirement are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred and Unearned Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as the succeeding year's property tax receivable not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of unspent grant proceeds as well as the succeeding year's property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in other spendable classifications.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures exceeded the amounts budgeted in the other expenditures functional area.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Capital Projects Fund -	Capital Projects Fund - Statewide	
Other Capital Projects	Sales, Services and Use tax	\$ 59,135
Debt Service	Capital Projects Fund - Statewide	
	Sales, Services and Use tax	407,692
Debt Service	Capital Projects Fund -	
	Physical Plant and Equipment Levy	28,818
Total		<u>\$ 495,645</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program.

Mount Ayr Community School District
Notes to Financial Statements
June 30, 2011

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2010-11A warrants is 1.2% plus the one-month LIBOR rate, adjusted daily. ISCAP advance activity in the General Fund for the year ended June 30, 2011 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2010-11A	6/30/2010	6/23/2011	\$ -	200,000	200,000	-

During the year ended June 30, 2011, the District paid \$83,075 of interest on the ISCAP warrants.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 145,185	-	-	145,185
Total capital assets not being depreciated	145,185	-	-	145,185
Capital assets being depreciated:				
Buildings	18,471,033	635,290	-	19,106,323
Improvements other than buildings	437,424	-	-	437,424
Furniture and equipment	3,418,811	129,593	80,301	3,468,103
Total capital assets being depreciated	22,327,268	764,883	80,301	23,011,850
Less accumulated depreciation for:				
Buildings	5,281,654	353,391	-	5,635,045
Improvements other than buildings	312,296	6,887	-	319,183
Furniture and equipment	2,430,936	183,453	65,286	2,549,103
Total accumulated depreciation	8,024,886	543,731	65,286	8,503,331
Total capital assets being depreciated, net	14,302,382	221,152	15,015	14,508,519
Governmental activities capital assets, net	\$ 14,447,567	221,152	15,015	14,653,704
Business type activities:				
Furniture and equipment	\$ 280,527	10,590	-	291,117
Less accumulated depreciation	238,973	1,971	-	240,944
Business type activities capital assets, net	\$ 41,554	8,619	-	50,173

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 400,489
Special	7,206
Other	14,412

Support services:

Student	3,603
Instructional staff	3,603
Administration	3,711
Operation and maintenance of plant	14,381
Transportation	70,556
Non-instructional programs	14,961

532,922

Unallocated

10,809

Total depreciation expense - governmental activities

\$ 543,731

Business type activities:

Food services

\$ 1,971

(6) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 6,250,000	-	240,000	6,010,000	250,000
Revenue bonds	2,765,000	-	145,000	2,620,000	145,000
Capital loan notes	41,232	-	27,161	14,071	14,071
Early retirement	204,363	4,200	76,330	132,233	36,030
Compensated absences	4,555	-	4,555	-	-
Total	\$ 9,265,150	4,200	493,046	8,776,304	445,101

General Obligation Bonds

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Bond Issue of May 1, 2008				
Year ended June 30,	Rates	Principal	Interest	Total
2012	4.250%	\$ 250,000	258,865	508,865
2013	4.250%	260,000	248,240	508,240
2014	4.250%	270,000	237,190	507,190
2015	4.250%	280,000	225,715	505,715
2016	4.250%	295,000	213,815	508,815
2017	4.250%	305,000	201,278	506,278
2018	4.250%	320,000	188,315	508,315
2019	4.250%	330,000	174,715	504,715
2020	4.250%	345,000	160,690	505,690
2021	4.250%	360,000	146,027	506,027
2022	4.250%	375,000	130,728	505,728
2023	4.250%	390,000	114,790	504,790
2024	4.300%	410,000	98,215	508,215
2025	4.350%	425,000	80,585	505,585
2026	4.400%	445,000	62,097	507,097
2027	4.450%	465,000	42,518	507,518
2028	4.500%	485,000	21,825	506,825
Total		\$ 6,010,000	2,605,608	8,615,608

Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Bond Issue of September 1, 2009				
Year ended June 30,	Rates	Principal	Interest	Total
2012	3.000%	\$ 145,000	108,342	253,342
2013	3.000%	165,000	103,992	268,992
2014	3.000%	165,000	99,042	264,042
2015	3.250%	160,000	94,092	254,092
2016	3.500%	160,000	88,892	248,892
2017	3.750%	155,000	83,292	238,292
2018	4.000%	150,000	77,480	227,480
2019	4.125%	150,000	71,480	221,480
2020	4.250%	145,000	65,292	210,292
2021	4.400%	145,000	59,130	204,130
2022	4.500%	140,000	52,750	192,750
2023	4.625%	140,000	46,450	186,450
2024	4.750%	140,000	39,975	179,975
2025	5.000%	135,000	33,325	168,325
2026	5.000%	135,000	26,575	161,575
2027	5.000%	130,000	19,825	149,825
2028	5.125%	130,000	13,325	143,325
2029	5.125%	130,000	6,662	136,662
Total		\$ 2,620,000	1,089,921	3,709,921

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,885,000 of bonds issued in September, 2009. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$3,709,921. For the current year, \$145,000 of principal and \$112,692 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$387,076.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- \$263,731 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all of the revenue bond provisions during the year ended June 30, 2011.

Capital Loan Notes

Details of the District's June 30, 2011 capital loan note indebtedness are as follows:

Period Ending June 30,	2001 Capital Loan Note			
	Interest Rate	Principal	Interest	Total
2012	4.80%	\$ 14,071	338	14,409
Total		\$ 14,071	338	14,409

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$297,592, \$304,192, and \$299,444, respectively, equal to the required contributions for each year.

(8) Other Post-Employment Benefits (OPEB)

Plan Description - The District operates a retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 114 active and 15 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is purchased through an outside provider. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 29,243
Interest on net OPEB	(551)
Adjustments to annual required contribution	(3,242)
Annual OPEB cost	25,450
Contributions made	(3,350)
Increase in net OPEB obligation	22,100
Net OPEB obligation beginning of year	(22,100)
Net OPEB obligation end of year	\$ -

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$3,350 to the medical plan. Plan members eligible for benefits contributed \$1,885, or 36% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 28,500	177.50%	\$ (22,100)
June 30, 2011	25,450	13.16%	-

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$310,185, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$310,185. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,696,096, and the ratio of the UAAL to covered payroll was 8.4%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumption includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2008.

Projected claim costs of the medical plan are \$289 per month for retirees less than age 65 and \$300 per month for retirees who have attained age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Termination Benefits

The District offers a voluntary early retirement plan to its full-time, certified employees. Eligible employees must be at least age fifty-four by September 1, but not more than sixty-two years of age by June 1 preceding the year of retirement and employees must have completed ten years of service to the District. Employees must complete an application and an attached letter of resignation which is required to be approved by the Board of Education.

The early retirement incentive for each eligible employee is the difference between the salary schedule base and the employee's placement on the salary schedule using the salary schedule in effect for the last year of employment and subject to a maximum of \$19,475 to \$36,000 per individual depending upon the individual's level of education and service to the District.

Early retirement benefits are paid monthly and cease when the retiree reaches the age of 65.

At June 30, 2011, the District has obligations to 15 participants with a total liability of \$132,233. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$76,330.

(10) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$268,451 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously reported	\$ 1,277,598	27,992
Change in fund type classification per implementation of GASB Statement No. 54	27,992	(27,992)
Balances July 1, 2010, as restated	<u>\$ 1,305,590</u>	<u>-</u>

Required Supplementary Information

Mount Ayr Community School District
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances
Budget and Actual - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance- Positive (Negative)
Revenues:					
Local sources	\$ 4,771,560	184,999	4,956,559	4,847,060	109,499
Intermediate sources	22,688	-	22,688	10,000	12,688
State sources	3,254,842	3,392	3,258,234	3,550,441	(292,207)
Federal sources	1,128,122	206,115	1,334,237	610,000	724,237
Total revenues	9,177,212	394,506	9,571,718	9,017,501	554,217
Expenditures:					
Instruction	4,947,261	-	4,947,261	5,615,963	668,702
Support services	2,335,949	-	2,335,949	3,150,159	814,210
Non-instructional programs	-	382,566	382,566	420,626	38,060
Other expenditures	2,385,071	-	2,385,071	1,051,361	(1,333,710)
Total expenditures	9,668,281	382,566	10,050,847	10,238,109	187,262
Excess (deficiency) of revenues over (under) expenditures	(491,069)	11,940	(479,129)	(1,220,608)	741,479
Other financing sources, net	49,738	-	49,738	6,000	43,738
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(441,331)	11,940	(429,391)	(1,214,608)	785,217
Balances beginning of year	1,862,149	84,660	1,946,809	1,094,165	852,644
Balances end of year	\$ 1,420,818	96,600	1,517,418	(120,443)	1,637,861

See accompanying independent auditor's report.

(1) Basis of Presentation

The District operates within the budget requirements for school districts as specified by state law and as prescribed by the Iowa Department of Management. Budgets are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

For the fiscal year beginning July 1, a proposed budget is adopted by the Board and filed with the County Auditor no later than April 15. The budget is certified by the County Auditor to the Department of Management.

Once adopted, the budget can be amended by the Board. The amendment must be published and a public hearing conducted prior to the amendment. Any amendments must be certified to the County Auditor no later than May 31. The proposed expenditure budget is advertised in the local newspaper, together with a notice of public hearing.

The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the functional area for a budgeted governmental, enterprise and private purpose trust funds in total, rather than by individual fund type. Formal and legal budgetary control is based on four major classes of expenditures known as functional areas. These four functional areas are instruction, support services, non-instructional programs and other expenditures. During the year ended June 30, 2011, the District over-expended the other expenditures functional area by \$1,333,710. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. Authorized expenditures cannot exceed the lesser of the certified budget plus any allowable amendments, or the authorized budget, which is the sum of the District's cost for that year plus the actual miscellaneous income received for that year plus the actual unspent balance from the preceding year. Appropriations, as adopted and amended, lapse at the end of the fiscal year.

The District is required by the Code of Iowa to budget for its share of media, education services and special education support provided through the local area education agency. The District's actual amount for this purpose totaled \$268,451 for the year ended June 30, 2011.

Mount Ayr Community School District
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information
Year ended June 30, 2011

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	310,185	310,185	0.0%	\$ 3,697,800	8.4%
2011	July 1, 2009	-	310,185	310,185	0.0%	3,696,096	8.4%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress

See accompanying independent auditor's report.

Other Supplementary Information

Schedule 1

Mount Ayr Community School District
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011

		Special Revenue		
		Management	Student Activity	Total
Assets				
Cash and pooled investments		\$ 160,926	136,350	297,276
Receivables:				
Property tax:				
Delinquent		1,996	-	1,996
Succeeding year		149,999	-	149,999
Accounts		-	5,418	5,418
Total assets		\$ 312,921	141,768	454,689
Liabilities and Fund Balances				
Liabilities:				
Accounts payable		\$ -	1,510	1,510
Deferred revenue:				
Succeeding year property tax		149,999	-	149,999
Early retirement payable		36,030	-	36,030
Total liabilities		186,029	1,510	187,539
Fund balances:				
Restricted for:				
Management levy purposes		126,892	-	126,892
Student activities		-	140,258	140,258
Total fund balances		126,892	140,258	267,150
Total liabilities and fund balances		\$ 312,921	141,768	454,689

See accompanying independent auditor's report.

Schedule 2

Mount Ayr Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
June 30, 2011

	Special Revenue		
	Management	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 148,377	-	148,377
Other	27,617	373,798	401,415
State sources	80	-	80
Total revenues	176,074	373,798	549,872
Expenditures:			
Current:			
Instruction:			
Regular	92,458	-	92,458
Other	-	343,675	343,675
	92,458	343,675	436,133
Support Services:			
Administration	37,679	-	37,679
Operation and maintenance of plant	27,235	-	27,235
Student transportation	15,069	-	15,069
	79,983	-	79,983
Total expenditures	172,441	343,675	516,116
Excess of revenues over expenditures	3,633	30,123	33,756
Fund balances beginning of year, as restated	123,259	110,135	233,394
Fund balances end of year	\$ 126,892	140,258	267,150

See accompanying independent auditor's report.

Schedule 3

Mount Ayr Community School District
Combining Balance Sheet
Capital Project Accounts
June 30, 2011

	Capital Projects			
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	Total
Assets				
Cash and pooled investments	\$ 388,564	13,413	181,002	582,979
Receivables:				
Property tax:				
Current year delinquent	-	882	-	882
Succeeding year	-	72,661	-	72,661
Due from other governments	106,453	-	-	106,453
Total assets	\$ 495,017	86,956	181,002	762,975
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 33,169	42,911	2	76,082
Due to other funds	-	-	181,000	181,000
Deferred revenue:				
Succeeding year property tax	-	72,661	-	72,661
Total liabilities	33,169	115,572	181,002	329,743
Fund balances:				
Restricted for:				
Debt service	263,731	-	-	263,731
School infrastructure	198,117	-	-	198,117
Unassigned fund balance	-	(28,616)	-	(28,616)
Total fund balances	461,848	(28,616)	-	433,232
Total liabilities and fund balances	\$ 495,017	86,956	181,002	762,975

See accompanying independent auditor's report.

Schedule 4

Mount Ayr Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Capital Project Accounts
Year ended June 30, 2011

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	
Revenues:				
Local sources:				
Local tax	\$ 387,076	65,752	-	452,828
Other	1,925	-	555	2,480
Intermediate sources	4,716	-	-	4,716
State sources	-	36	39,425	39,461
Federal sources	-	-	491,358	491,358
Total revenues	393,717	65,788	531,338	990,843
Expenditures:				
Current:				
Support Services:				
Administration	773	-	183	956
Operation and maintenance of plant	20,431	-	-	20,431
Transportation	-	85,459	-	85,459
	21,204	85,459	183	106,846
Other expenditures:				
Facilities acquisition	108,785	8,119	1,202,941	1,319,845
Total expenditures	129,989	93,578	1,203,124	1,426,691
Excess (deficiency) of revenues over (under) expenditures	263,728	(27,790)	(671,786)	(435,848)
Other financing uses:				
Operating transfers in	-	-	59,135	59,135
Operating transfers out	(466,827)	(28,818)	-	(495,645)
Total other financing sources(uses)	(466,827)	(28,818)	59,135	(436,510)
Deficiency of revenues under expenditures and other financing uses	(203,099)	(56,608)	(612,651)	(872,358)
Fund balances beginning of year, as restated	664,947	27,992	612,651	1,305,590
Fund balances end of year	\$ 461,848	(28,616)	-	433,232

See accompanying independent auditor's report.

Schedule 5

Mount Ayr Community School District
Combining Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business Type Activities			Governmental Activities
	Non-major Enterprise Funds			Internal Service Funds
	School Nutrition	Student Construction	Total	Flexible Benefits
Assets				
Current assets:				
Cash and investments	\$ 48,993	3,453	52,446	1,443
Inventories	22,891	-	22,891	-
Total current assets	71,884	3,453	75,337	1,443
Non-current assets:				
Property and equipment:				
Machinery and equipment	291,117	-	291,117	-
Accumulated depreciation	(240,944)	-	(240,944)	-
Total non-current assets	50,173	-	50,173	-
Total assets	\$ 122,057	3,453	125,510	1,443
Liabilities				
Current liabilities:				
Accounts payable	\$ 24,078	-	24,078	190
Salaries and benefits payable	4,832	-	4,832	-
Total current liabilities	28,910	-	28,910	190
Total liabilities	28,910	-	28,910	190
Net Assets				
Invested in capital assets, net of related debt	50,173	-	50,173	-
Unrestricted	42,974	3,453	46,427	1,253
Total net assets	93,147	3,453	96,600	1,253
Total liabilities and net assets	\$ 122,057	3,453	125,510	1,443

See accompanying independent auditor's report.

Schedule 6

Mount Ayr Community School District
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
June 30, 2011

	Business Type Activities			Governmental Activities
	Non-major Enterprise Funds			Internal Service Funds
	School Nutrition	Student Construction	Total	Flexible Benefits
Operating revenues:				
Local sources:				
Other local sources:				
Food service sales	\$ 140,786	-	140,786	-
Other operating revenues	43,935	-	43,935	412
Total operating revenues	184,721	-	184,721	412
Operating expenses:				
Instructional programs:				
Support services:				
Instructional staff:				
Supplies	-	-	-	523
	-	-	-	523
Non-instructional programs:				
Food services operations:				
Salaries	158,430	-	158,430	-
Benefits	30,938	-	30,938	-
Services	2,215	-	2,215	-
Supplies	189,012	-	189,012	-
Depreciation	1,971	-	1,971	-
	382,566	-	382,566	-
Total operating expenses	382,566	-	382,566	523
Operating loss	(197,845)	-	(197,845)	(111)
Non-operating revenues:				
Contributions	278	-	278	-
State lunch and breakfast program claims	3,392	-	3,392	-
National School Lunch Program	131,096	-	131,096	-
School Breakfast Program	47,453	-	47,453	-
Food distribution	27,566	-	27,566	-
Total non-operating revenues	209,785	-	209,785	-
Net income (loss)	11,940	-	11,940	(111)
Net assets beginning of year	81,207	3,453	84,660	1,364
Net assets end of year	\$ 93,147	3,453	96,600	1,253

See accompanying independent auditor's report.

Schedule 7

Mount Ayr Community School District
Combining Statement of Cash Flows
Proprietary Funds
June 30, 2011

	Business Type Activities			Governmental Activities
	Non-major Enterprise Funds			Internal Service Funds
	School Nutrition	Student Construction	Total	Flexible Benefits
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 140,786	-	140,786	-
Cash received from other operating activities	43,935		43,935	412
Cash payments to employees for services	(187,370)	-	(187,370)	-
Cash payments to suppliers for goods or services	(163,292)	-	(163,292)	(333)
Net cash provided (used) by operating activities	(165,941)	-	(165,941)	79
Cash flows from non-capital financing activities:				
Contributions - operating	278	-	278	-
State grants received	3,392	-	3,392	
Federal grants received	178,549	-	178,549	-
Net cash provided by non-capital financing activities	182,219	-	182,219	-
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(10,590)	-	(10,590)	-
Net cash used by capital and related financing activities	(10,590)	-	(10,590)	-
Net increase in cash and cash equivalents	5,688	-	5,688	79
Cash and cash equivalents at beginning of year	43,305	3,453	46,758	1,364
Cash and cash equivalents at end of year	\$ 48,993	3,453	52,446	1,443
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	\$ (197,845)	-	(197,845)	(111)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Commodities used	27,566	-	27,566	-
Depreciation	1,971	-	1,971	-
(Increase) in inventories	(487)	-	(487)	-
Increase in accounts payable	856	-	856	190
Increase in salaries and benefits payable	380	-	380	-
Increase in postemployment benefits	1,618	-	1,618	-
Net cash provided (used) by operating activities	\$ (165,941)	-	(165,941)	79
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:				
Current assets:				
Cash	\$ 48,993	3,453	52,446	1,443
Cash and cash equivalents at year end	\$ 48,993	3,453	52,446	1,443

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received federal commodities valued at \$27,566.

See accompanying independent auditor's report.

Schedule 8

Mount Ayr Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Adult Education	\$ 2,693	1,345	998	3,040
Alternative School	141	-	-	141
Art Club	335	-	226	109
Athletics:				
Football	5,600	72,335	66,559	11,376
Volleyball	(96)	5,314	3,648	1,570
Wrestling	4,955	3,783	5,879	2,859
Boys' basketball	121	3,286	3,969	(562)
Girls' basketball	5,235	14,289	10,554	8,970
Boys' track	129	5,398	4,563	964
Girls' track	1,370	3,359	3,632	1,097
Cross Country resale	210	707	707	210
Golf	588	7,226	7,222	592
Baseball	1,010	3,476	3,489	997
Softball	(113)	3,358	3,005	240
Bowling	89	764	848	5
General Athletics	3,106	87,254	76,109	14,251
Ayrian	7,990	7,332	9,255	6,067
Band	3,625	2,508	5,145	988
Character Counts	37	174	36	175
Cheerleaders	1,830	4,139	5,110	859
Class:				
Senior	1,775	7,028	6,115	2,688
Junior	5,146	9,131	10,898	3,379
Sophomore	4,001	2,518	4,008	2,511
Freshman	2,518	2,400	2,518	2,400
Concessions	2,903	42,369	33,076	12,196
Drama Club	(717)	6,855	6,027	111
Drill Team	2,553	14,572	11,507	5,618
Elementary Activities	8,486	11,337	9,749	10,074
Elementary Library	2,738	43	664	2,117
Elementary Student Council	2,655	-	-	2,655
Elementary Yearbook	443	-	-	443
Future Consumer Comm Leadersip Assoc	1,224	236	256	1,204
Future Farmers of America	12,712	28,695	29,312	12,095
Future Teachers Association	2,399	-	-	2,399
Gifts/Memorials	3,509	7,622	4,319	6,812
Industrial Arts	151	1,762	2,367	(454)
Middle School	4,801	1,573	2,400	3,974
Library Club	355	-	-	355
Pep Club	1,165	-	-	1,165
Resale	2,325	280	106	2,499
S.A.D.D.	737	-	46	691
Science Club	259	-	-	259
Talented and Gifted Club	1,882	-	193	1,689

Schedule 8

Mount Ayr Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Spanish Club	1,702	24	344	1,382
Special Olympics	256	-	243	13
Speech	(145)	1,125	1,296	(316)
Student Council	707	558	582	683
Student Activity/vending	1,540	2,746	1,103	3,183
Vocal music	2,082	2,507	2,351	2,238
Weightlifting	1,118	4,370	3,241	2,247
Total	\$ 110,135	373,798	343,675	140,258

See accompanying independent auditor's report.

Mount Ayr Community School District
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Ten Years

	Modified Accrual Basis									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:										
Local sources:										
Local tax	\$ 3,773,074	3,696,028	3,753,308	3,250,186	2,767,016	2,572,488	2,451,825	2,376,629	2,377,295	2,024,160
Tuition	351,984	383,168	406,661	556,040	608,610	529,221	423,715	468,609	545,882	546,584
Other	646,502	640,009	1,222,713	600,441	539,291	452,485	456,198	367,281	450,124	417,165
Intermediate sources	22,688	30,171	28,627	33,771	16,026	9,184	11,461	19,491	23,885	45,615
State sources	3,254,842	2,876,171	3,401,412	3,328,660	3,115,847	3,178,765	3,108,574	3,374,553	3,335,123	3,411,878
Federal sources	1,128,122	846,533	438,928	374,159	345,295	357,147	283,269	271,334	260,386	289,085
Total	\$ 9,177,212	8,472,080	9,251,649	8,143,257	7,392,085	7,099,290	6,735,042	6,877,897	6,992,695	6,734,487
Expenditures:										
Instruction:										
Regular	\$ 2,554,927	2,298,973	2,705,269	2,561,874	2,441,247	2,252,637	2,263,656	2,383,276	2,195,590	2,318,024
Special	1,247,088	1,282,803	1,316,604	1,101,386	1,229,717	1,359,199	1,317,696	1,271,789	1,330,654	1,301,817
Other	1,145,246	1,305,973	1,182,923	991,338	931,330	973,588	779,600	758,563	717,350	751,655
Support services:										
Student	174,013	214,196	208,071	179,619	185,798	206,175	174,313	148,048	142,481	187,156
Instructional staff	282,402	269,110	349,186	289,891	289,064	304,577	320,562	203,150	256,930	208,759
Administration	706,870	780,963	815,824	835,415	866,402	825,682	760,148	631,628	610,999	599,970
Operation and maintenance of plant	681,633	631,017	630,818	651,021	556,011	573,287	580,080	451,782	490,606	432,079
Transportation	491,031	370,842	481,274	445,958	503,431	425,201	318,102	288,136	268,432	311,839
Central support	-	-	-	-	-	-	65,926	54,662	95,673	156,355
Other support	-	-	-	-	-	-	-	8,845	-	-
Other expenditures:										
Facilities acquisition	1,319,845	5,307,406	3,826,197	504,012	101,995	223,998	367,132	145,579	5,158	607,785
Long-term debt:										
Principal	412,161	375,902	244,702	23,558	22,467	46,419	43,833	41,363	204,463	188,912
Interest and other charges	384,614	411,004	292,306	48,860	6,351	7,392	9,978	12,448	18,409	24,708
AEA flowthrough	268,451	267,205	248,593	236,762	228,129	222,117	218,935	228,706	246,674	249,067
Total	\$ 9,668,281	13,515,394	12,301,767	7,869,694	7,361,942	7,420,272	7,219,961	6,627,975	6,583,419	7,338,126

See accompanying independent auditor's report.

Mount Ayr Community School District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Grantor/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Agriculture: Community Facilities Loans and Grants	10.766	FY 11	\$ 195,670
U.S. Department of Homeland Security: Hazard Mitigation Grants	97.039	FY 11	295,688
Indirect:			
U.S. Department of Agriculture: Iowa Department of Education: School Nutrition Cluster Programs: School Breakfast Program	10.553	FY 11	47,453
National School Lunch Program	10.555	FY 11	158,662 *
			206,115
U.S. Department of Education: Iowa Department of Education: Title I, Part A Cluster: Title I Grants to Local Educational Agencies	84.010	FY 11	128,179
ARRA - Title I Grants to Local Education Agencies, Recovery Act	84.389	FY 11	59,125
			187,304
Vocational Education - Basic Grants to States	84.048	FY 11	12,978
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY 11	55,089
Safe and Drug Free Schools and Communities - State Grants	84.184	FY 11	5,330
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	FY 11	2,818
Title IIA - Federal Teacher Quality Program	84.367	FY 11	44,558
Grants for State Assessments	84.369	FY 11	4,011
ARRA - State Fiscal Stabilization Fund Cluster: ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY 11	35,987
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	FY 11	30,553
			66,540
ARRA - Education Jobs Fund	84.410	FY 11	130,155
Heartland Area Education Agency Special Education Cluster (IDEA): Special Education - Grants to States	84.027	FY 11	33,688
Total			\$ 1,239,944

* Includes \$27,566 in non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Mount Ayr Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of Mount Ayr Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Mount Ayr Community School District, Mount Ayr, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 22, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mount Ayr Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mount Ayr Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mount Ayr Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-11 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mount Ayr Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Scheduling of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Mount Ayr Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Mount Ayr Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mount Ayr Community School District and other parties to whom Mount Ayr Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mount Ayr Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

November 22, 2011

**Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Board of Education of Mount Ayr Community School District:

Compliance

We have audited Mount Ayr Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Mount Ayr Community School District's major federal programs for the year ended June 30, 2011. Mount Ayr Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Mount Ayr Community School District's management. Our responsibility is to express an opinion on Mount Ayr Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mount Ayr Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mount Ayr Community School District's compliance with those requirements.

In our opinion, Mount Ayr Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Mount Ayr Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Mount Ayr Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mount Ayr Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

Mount Ayr Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Mount Ayr Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mount Ayr Community School District and other parties to whom Mount Ayr Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

November 22, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 10.766 – ARRA – Community Facilities Loans and Grants
 - CFDA Number 84.410 – ARRA – Education Jobs Fund
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Clustered programs:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - CFDA Number 84.389 – ARRA – Title I Grants to Local Education Agencies, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Mount Ayr Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

- II-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2011
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 10.766: Community Facilities Loans and Grants
Federal Award Year: 2011
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
CFDA Number 84.389: ARRA – Title I Grants to Local Education Agencies, Recovery Act
Federal Award Year: 2011
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.410: ARRA – Education Jobs Fund
Federal Award Year: 2011
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - Expenditures for the year ended June 30, 2011, exceeded the certified budget amounts in the other expenditures functional area.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

Mount Ayr Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

- IV-B-11 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-11 Business Transactions - No business transactions were noted between the District and District officials or employees.
- IV-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-11 Board Minutes - No transactions were noted requiring Board approval which had not been approved by the Board.
- IV-G-11 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-11 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- IV-J-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-11 Sale of Property - During the year ended June 30, 2011, the District made sales of property in accordance with Chapter 297.22 of the Code of Iowa.
- IV-L-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-M-11 Deficit Balances - The Debt Service Fund, Capital Projects Fund-PPEL Account, and three student activity accounts had deficit balances at June 30, 2011.

Recommendation - The District should continue to investigate alternatives to eliminate these deficits in order to return funds/accounts to a sound financial condition.

Response - The District is continuing to investigate alternatives to eliminate these deficit balances.

Conclusion - Response accepted.

Mount Ayr Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

IV-N-11 Statewide Sales, Services and Use Tax – No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	664,947
Revenues/transfers in:			
Sales tax revenues	\$	387,076	
Other local revenues		1,925	
Intermediate sources of revenues		4,716	393,717
			<u>1,058,664</u>
Expenditures/transfers out:			
School infrastructure construction		108,785	
Transfers to other funds:			
Debt service funds		407,692	
Other transfers		59,135	575,612
			<u>575,612</u>
Ending balance		\$	<u>483,052</u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation		Property Tax Dollars Reduced
Debt service levy	\$	2.07552	\$ 407,692